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KAPS TRANSPORT LTD.

ANNUAL
REPORT
1968



OFFICERS:

432-7402.

President	REINHOLD KAPCHINSKY
Vice President	GERHARD KAPCHINSKY
Treasurer	HELMUT KAPCHINSKY
Secretary	HELMUT KAPCHINSKY

DIRECTORS:

REINHOLD KAPCHINSKY ..	Edmonton, Alberta
GERHARD KAPCHINSKY	Fort St. John, B.C.
HELMUT KAPCHINSKY	Edmonton, Alberta
GEORGE C. FIELD	Edmonton, Alberta
ROBERT A. DUNN	Edmonton, Alberta
R. A. N. BONNYCASTLE	Winnipeg, Manitoba
LORNE C. LEITCH	Edmonton, Alberta

REGISTERED OFFICE

9520 - 51st Avenue, Edmonton, Alberta

TRANSFER AGENT AND REGISTRAR

Royal Trust Company, Edmonton, Vancouver,
Winnipeg and Toronto

STOCK EXCHANGE LISTING

Toronto Stock Exchange

BANK

The Bank of Montreal

AUDITORS

Thorne, Gunn, Helliwell & Christenson,
Edmonton, Alberta

FINANCIAL HIGHLIGHTS

	1968	1967
Total Revenue	\$6,416,825	\$5,066,611
Net Income	442,086	406,490
Per common share	76.2c	70.1c
Dividends paid	0.15c	—
Capital Expenditures (net)	1,036,496	796,579

MESSAGE FROM THE PRESIDENT

I take pleasure in welcoming our many new shareholders in this most gratifying and exciting year in your company's operations. Subsequent to the successful financing and distribution undertaken in October 1967, the Company now has approximately 550 shareholders. The stock was listed on the Toronto Stock Exchange on January 22, 1968.

As indicated in the original prospectus statement your Company paid a semi-annual dividend of fifteen cents per share to shareholders as of June 1968 and is in anticipation of a similar dividend payment as of December 1968.

As may be seen from the accompanying financial statements, the year was successful in other respects. Revenues totalled more than \$6.4 million, an increase of 26.6% over comparable 1967 revenues. Net income rose to \$442,086 in fiscal 1968 from \$406,490 in fiscal 1967, or 76 cents per share compared to 70 cents.

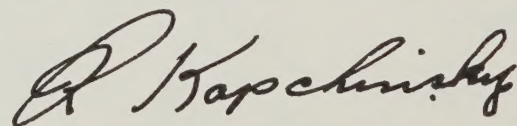
You may recall that, in 1967, we had forecast capital expenditures of about \$500,000. Developments later in the year, and in particular the apparent discovery of large oil reserves in the Prudhoe Bay area of the Alaskan North Slope, resulted in the much larger commitment. In July 1968, your Company entered into a major agreement with Mobil Oil Corporation for transportation and earthmoving services at Prudhoe Bay. The equipment necessary to fulfill the contract was purchased before the year-end and is reflected in the total capital expenditures for 1968.

Another long-term agreement has been signed with the J. Ray McDermott & Company, Inc. for oil field equipment transportation and earthmoving service at a Northwest Territories site.

Major items of capital expenditure during the year included; purchase of four diesel trucks and trailer units in July 1967, twelve truck and trailer units and auxiliary moving equipment in November 1967, expenditures on camp installations at Zama Lake, Rainbow Lake and Fort Nelson, another 30-ton tracked vehicle in April 1968, and a second 150-ton barge in June 1968.

These investments may be taken as a measure of our confidence in the outlook for the future of your Company.

The Directors have asked me to take this opportunity to thank our loyal and energetic employees, without whose efforts the achievements of the year would have been impossible.



Edmonton, Alberta,
October 25th, 1968.

R. Kapchinsky,
President.

KAPS TRANSPORT LTD.
and wholly-owned subsidiary companies

CONSOLIDATED STATEMENT OF INCOME

Year Ended June 30, 1968
(with comparative figures for 1967)

	1968	1967 (note 1)
Revenue	\$6,416,825	\$5,066,611
Less hired truck costs	1,802,400	1,591,054
	<u>4,614,425</u>	<u>3,475,557</u>
Expenses		
Direct operating	2,656,310	1,854,935
Shop	435,632	287,435
General and administrative (note 12)	359,871	355,457
Provision for depreciation	391,222	260,799
Interest on long-term debt	27,617	17,715
	<u>3,870,652</u>	<u>2,776,341</u>
	743,773	699,216
Other income	63,123	45,465
Profit on disposal of fixed assets	39,573	17,843
Income before income taxes	846,469	762,524
Income taxes (note 7)	404,383	356,034
NET INCOME FOR THE YEAR	<u>\$ 442,086</u>	<u>\$ 406,490</u>

KAPS TRANSPORT LTD.
and wholly-owned subsidiary companies

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year Ended June 30, 1968

BALANCE AT BEGINNING OF YEAR	\$345,180
Add	
Net income for the year	442,086
Transfer from capital redemption reserve fund (note 9)	51,800
	<u>839,066</u>
Deduct	
Dividends on	
Preferred shares	5,900
Common shares	87,000
Re-organization costs written off	16,174
	<u>109,074</u>
BALANCE AT END OF YEAR	<u>\$729,992</u>

ASSETS

CURRENT ASSETS

Accounts receivable	\$1,187,180
Agreements and loans receivable	4,674
Inventories (note 4)	317,256
Prepaid expenses (note 3)	67,234
	<u>1,576,344</u>

OTHER ASSETS

Special refundable tax	<u>18,974</u>
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FIXED ASSETS (note 5)

Land, buildings and equipment, at cost	3,350,343
Less accumulated depreciation	861,272
	<u>2,489,071</u>

INTANGIBLES AND DEFERRED CHARGES

Excess of cost over book value at dates of acquiring shares of subsidiaries (note 2)	467,630
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Approved on behalf of the Board:

R. Karpchinsky
Largo Lined

Director

Director

\$4,552,019

AUDITORS' REPORT

To the Shareholders of
Kaps Transport Ltd.

We have examined the consolidated balance sheet of KAPS TRANSPORT LTD. and its wholly-owned subsidiary companies as at June 30, 1968 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

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BALANCE SHEET

1968

LIABILITIES

CURRENT LIABILITIES

Bank advances (note 6)	\$ 516,414
Accounts payable	565,085
Salaries and wages payable	27,266
Income taxes payable	112,933
Principal instalments due within one year on long-term debt	301,624
	<u>1,523,322</u>

LONG-TERM DEBT (note 6)

Bank loans	327,749
Finance contracts	89,024
	<u>416,773</u>
Less principal instalments included in current liabilities	301,624
	<u>115,149</u>

DEFERRED INCOME TAXES (note 7)	<u>520,280</u>
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SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 8)

Authorized	
2,950 4% Cumulative redeemable preferred shares of \$100 par value	
1,000,000 Common shares without nominal or par value	
Issued	
580,000 Common shares	1,663,276

RETAINED EARNINGS	729,992
	<u>2,393,268</u>
	<u>\$4,552,019</u>

ESCROW SHARES (note 10)
LONG-TERM LEASES (note 11)

In our opinion these consolidated financial statements present fairly the financial position of the companies as at June 30, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change in accounting practice outlined in note 3, with which we concur.

EDMONTON, Alberta,
October 2, 1968.

Thorne, Gunn, Helliwell & Christenson.
Chartered Accountants

KAPS TRANSPORT LTD.
and wholly-owned subsidiary companies

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year Ended June 30, 1968

SOURCE OF FUNDS

Operations

Net income for the year	\$ 442,086
Add items not involving a current outlay of funds	
Depreciation	391,222
Deferred income taxes	134,210
	<u>967,518</u>
Less profit on disposal of fixed assets	39,573
	<u>927,945</u>
Working capital acquired on acquisition of subsidiaries	57,750
Issue of common shares for cash	440,000
Sale of fixed assets	137,571
	<u>1,563,266</u>

APPLICATION OF FUNDS

Additions to fixed assets	1,174,067
Special refundable tax	215
Redemption of preferred shares	295,000
Re-organization costs	16,174
Reduction in long-term debt	52,507
Dividends on	
Preferred shares	5,900
Common shares	87,000
	<u>1,630,863</u>

DECREASE IN WORKING CAPITAL	(67,597)
WORKING CAPITAL AT BEGINNING OF YEAR	120,619
WORKING CAPITAL AT END OF YEAR	<u>\$ 53,022</u>

KAPS TRANSPORT LTD.

and wholly-owned subsidiary companies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 1968

1. COMPARATIVE FIGURES

Comparative figures for 1967 have not been shown on the balance sheet, statement of retained earnings and statement of source and application of funds. Such figures would not be meaningful because of the major changes resulting from the acquisition of subsidiary companies (note 2) and the conversion from a private to a public company during the current year.

The 1967 figures given for comparison in the statement of income are the combined earnings of Kaps Transport Ltd. and its present subsidiary companies. Inter-company transactions have been eliminated from these figures.

2. BASIS OF CONSOLIDATION

During the year the company issued 222,410 of its shares at \$5.50 per share to acquire all the issued and outstanding shares of Wizard Transport Ltd., Bolsters Transport Ltd. and Alberta Equipment Centre Ltd. The excess of cost over book value at the date of acquisition was as follows:

	Shares Issued	Cost	Book Value	Excess
Wizard Transport Ltd.	164,350	\$ 903,925	\$ 533,287	\$ 370,638
Bolsters Transport Ltd.	28,060	154,330	74,968	79,362
Alberta Equipment Centre Ltd.	30,000	165,000	147,370	17,630
	<u>222,410</u>	<u>\$1,223,255</u>	<u>\$ 755,625</u>	<u>\$ 467,630</u>

In addition, on July 27, 1967 R.B.D. Earthmovers Ltd. was incorporated as a wholly-owned subsidiary and 90 of its \$1 par value shares were issued to the company at par.

All of the above wholly-owned subsidiaries are included in the consolidated financial statements for the year ended June 30, 1968.

3. CHANGE IN ACCOUNTING PRACTICE

During the year the company changed its practice with regard to writing off licenses purchased for its equipment. Licenses previously written off in the year of purchase are now being written off over their useful life. Accordingly, \$49,276 of unexpired license costs have been included in prepaid expenses with the result that the net income for the year is \$24,638 higher than would have been reported using the old practice.

4. INVENTORIES

Parts and supplies, at cost	\$299,615
Inventories of automotive and heavy equipment, at lower of cost and net realizable value	17,641
	<u>\$317,256</u>

5. FIXED ASSETS

	Cost	Accumulated Depreciation	Net
Land	\$ 10,633	\$ —	\$ 10,633
Buildings	141,982	16,185	125,797
Automotive equipment	2,658,047	720,772	1,937,275
Portable field equipment	181,126	51,198	129,928
Aircraft	135,000	19,688	115,312
Marine equipment	116,890	6,000	110,890
Leasehold improvements	13,442	7,531	5,911
Office and shop equipment	93,223	39,898	53,325
	<u>\$3,350,343</u>	<u>\$861,272</u>	<u>\$2,489,071</u>

Annual depreciation rates used by the company are:

(a) On a diminishing balance basis:

Buildings	
Concrete block	5%
Frame	10%
Office and shop equipment	20%

(b) On a straight line basis:

Automotive equipment	
Tracked equipment	20%
Gasoline powered units	20%
Diesel powered units	10%
Service vehicles	30%
Portable field equipment	20%
Aircraft	12.5%
Marine equipment	10%
Leasehold improvements — equal annual amounts over the life of the lease.	

6. LONG-TERM DEBT

Bank loans

6½ % loan, less collateral cash account of \$10,000 repayable at \$9,301 per month principal and interest	\$ 71,452
7% loan repayable \$6,710 per month principal and interest	108,463
7¼ % loan repayable \$4,147 per month principal interest	89,501
8% loan repayable \$11,667 semi - annually on June 1 and December 1 with interest payable monthly	58,333
	<u>\$327,749</u>

The above bank loans and the bank advances included in current liabilities are secured by a general assignment of book debts and a chattel mortgage on a Nodwell tracked vehicle.

Finance contracts

These contracts are secured by the equipment pledged under the contracts and are repayable as follows:

Year ended June 30, 1969	\$76,839
Year ended June 30, 1970	12,185
	<u>\$89,024</u>

7. DEFERRED INCOME TAXES

It is the company's practice to claim for income tax purposes capital cost allowances in excess of depreciation recorded in the accounts with the result that income taxes payable for the year have been reduced by \$134,210, (\$118,883 in 1967). This reduction is included in "deferred income taxes" in the accompanying balance sheet. In future years when capital cost allowances may be less than recorded depreciation, the excess income taxes payable will be charged against the "deferred income taxes" account.

8. CAPITAL STOCK

During the year the company changed its authorized capital stock as follows:

- By the creation of 1,000,000 common shares without nominal or par value which may be issued for a maximum consideration of \$6,000,000.
- By the cancellation of 20,000 common shares of \$1 par value which had previously been authorized.
- By the cancellation of 2,050 unissued 4% cumulative, redeemable preferred shares of \$100 par value.

Common shares without nominal or par value were issued during the year as follows:

For cash	80,000	\$ 440,000
For the purchase of shares in subsidiary companies (note 2)	222,410	1,223,255
For the 21 common shares of \$1 par value, previously issued, which were converted into stock and the stock reconverted into new common shares	277,590	21
	<u>580,000</u>	<u>\$1,663,276</u>

The 2,950 4% cumulative preferred shares of \$100 par value which were outstanding at June 30, 1967 were redeemed during the year at par.

9. CAPITAL REDEMPTION RESERVE FUND

This amount was required under the Alberta Companies Act as a result of the redemption at par in 1966 of 518 4% cumulative preferred shares of \$100 par value. It was not available for the payment of dividends unless and until transferred to retained earnings under the statutory procedures for reduction of capital. During the year the company complied with the statutory requirements and accordingly transferred this amount to retained earnings.

10. ESCROW SHARES

Of the 580,000 common shares outstanding 300,000 are subject to an escrow agreement dated October 4, 1967 between the principal shareholders, Reinhold, Gerhard and Helmut Kapchinsky on one part, the underwriter on one part and the Royal Trust Company as Trustee which provides that such shares may be released from escrow or transferred on the books of the company in five equal annual instalments commencing October 1, 1968.

11. LONG-TERM LEASES

The company rents from two of its directors, two buildings under long-term "net net" leases which expire August 31, 1977, the annual rentals for which total \$28,500. There are options to extend the leases a further five years at the same annual rentals.

12. REMUNERATION OF DIRECTORS AND OFFICERS

Aggregate direct remuneration paid or payable by the company to its directors and officers amounted to \$75,700 for the year.

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**KAPS
TRANSPORT
LTD.**

**SEMI-ANNUAL
REPORT**

DECEMBER 31, 1968

MESSAGE FROM THE PRESIDENT

In the six months ended December 31, 1968 revenues totaled \$2,802,463 up from \$2,647,477 during the comparable period last year. Net earnings rose to \$151,150 from \$135,204 or 26.1c per share compared to 23.3c per share. It should be borne in mind that the bulk of the years profits are normally realized in the last six months of the company's fiscal year.

During the past six months considerable oil activity has developed in Canada's North and the Prudhoe Bay area of Alaska. This has resulted in certain non-recurring expenses which were required in order that your company participate in this development. Today we play a major role in the transportation field in these areas.

In order to play an even greater role in this development, your company is increasing its fleet of shallow draft barging equipment. This equipment is constructed so that it can navigate the Mackenzie River and its tributaries. This will enable your company to transport equipment during the summer months, thus allowing certain activity to continue on a year round basis.

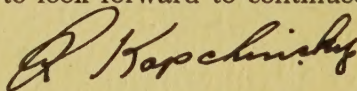
To supply the close air support necessary to operate in these remote areas, your company purchased, effective January 1, 1969, subject to Air Transport Committee approval, all of the outstanding shares of Keir Air Transport Ltd.

Your company can now offer industry land, air or water transportation.

We recently made two other acquisitions, both for cash, which are expected to contribute to 1969 earnings and broaden the range of services we can offer our customers. The first, Norcan Parts & Equipment (1965) Ltd., of which a majority interest was purchased, effective November 1, 1968, is engaged in the sale and rental of heavy construction and oilfield equipment and tracked vehicles. The other, R. R. Dales Construction Co. Ltd., purchased effective January 1, 1969, is wholly owned and is a major supplier of aggregate to industry in Western Canada. Earnings of these two companies for the nine months ended December 31, 1968, approximated 39c per share based on the issued and outstanding shares of Kaps Transport Ltd.

Since the last annual report to the Shareholders, Mr. Allan D. Hardy has joined the company as Executive Vice-President, and Mr. Hugh Hoyle, C.A., and Mr. Marvin Phillips, C.A., have also joined the company.

With this expansion of services and management your company should be able to look forward to continued growth.



R. Kapchinsky,
President

Edmonton, Alberta
February 18, 1969.

KAPS TRANSPORT LTD.
and its subsidiary companies
Consolidated Statement of Income
6 months ended December 31, 1968
(with comparative figures for 1967)
(unaudited)

	<u>1968</u>	<u>1967</u>
Revenue	\$2,802,463	\$2,647,477
Less hired truck costs	434,898	607,673
	<u>2,367,565</u>	<u>2,039,804</u>
Expenses:		
Direct operating	1,713,276	1,499,878
General and administrative	202,760	168,716
Provision for depreciation	203,457	149,432
Interest on long term debt	20,164	12,650
	<u>2,139,657</u>	<u>1,830,676</u>
Operating profit	227,908	209,128
Other income	58,025	51,130
Income before income taxes	285,933	260,258
Provision for income taxes	132,269	125,054
	153,664	135,204
Minority interest in income	2,514	
	<u>\$ 151,150</u>	<u>\$ 135,204</u>
Earnings per share based on		
<u>580,000 shares outstanding</u>	<u>26.1c</u>	<u>23.3c</u>

NOTE 1—Certain 1967 figures have been adjusted in order to make this statement comparable.

NOTE 2—During the current fiscal year the company changed its practise with regard to depreciation on tracked equipment. Tracked equipment previously written off at the rate of 20% per annum is now being written off at 10% on a straight-line basis. Accordingly accumulated depreciation, accounts were adjusted with respect to equipment on hand by applying the policy retroactively to the date of acquisition. Depreciation expense has been reduced by \$51,624 and net income for the period is \$25,038 higher than would have been reported using the old practise.

KAPS TRANSPORT LTD.
and its subsidiary companies
Consolidated Statement of Source and Application of Funds
6 months ended December 31, 1968
(unaudited)

Funds provided:

From operations

Net income \$151,150

Non-cash items:

Add—depreciation 203,457

—deferred income taxes 34,035

—minority interest in income 2,514

319,156

Deduct—Gain on sale of

fixed assets 21,559

369,597

Refunds on special refundable tax 1,295

Increase on long term debt 95,869

Proceeds on sale of fixed assets 107,308

Working capital acquired on

acquisition of subsidiary 129,380

703,449

Funds applied:

Additions to fixed assets 430,896

Acquisitions of subsidiary 153,500

Dividends on common shares 87,000

Income tax re-assessment 15,000

686,396

Increase in working capital 17,053

Working capital, June 30, 1968 53,022

Working capital, December 31, 1968 \$ 70,075